

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: May 31, 2011
POSITION: Oppose

BILL NUMBER: AB 893
AUTHOR: M. Perez

BILL SUMMARY: Infrastructure Economic Development Bank

This bill requires the California Infrastructure and Economic Development Bank (I-Bank) to provide technical assistance to small and rural communities in obtaining financing for infrastructure projects, modifies annual reporting requirements to include a list of outreach activities and information on economic development outcomes.

FISCAL SUMMARY

Estimated costs to implement the bill would be between \$150,000 and \$350,000 annually. This would fund one to three positions, plus travel and conference facilities, to enable the I-Bank staff to provide periodic training throughout the state. Alternatively, if the I-Bank determines that other entities are qualified, it could use funds for contracting with nonprofits or governmental entities. Currently all the funds that are not used to pay for the I-Bank's program costs are used to provide low-interest loans to fund public infrastructure through the Infrastructure State Revolving Fund (ISRF). The bill does not provide additional funding or staff and diverting current staff and funds from the ISRF Program would mean reduction in the effectiveness of the program by providing fewer low-interest loans for local infrastructure improvements. The cash in the ISRF program is leveraged with tax-exempt revenue bonds on a 3:1 ratio, so for every dollar diverted from that program there would be \$3 loss of bonds infrastructure financing.

COMMENTS

Finance is opposed to the bill because it requires the I-Bank to establish a new program without providing additional funding or staffing, which would reduce funds available for the I-Bank loan programs for public infrastructure. While providing technical assistance to small communities may assist them in developing infrastructure planning, it is already available through other organizations. Additionally, some small communities that have projects that the I-Bank might fund may not qualify for the I-Bank loans because the community does not have sufficient capacity to repay the loans; therefore technical assistance from the I-Bank would not result in more loans to these communities.

Analyst/Principal (0741) P. Abahazi	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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ANALYSIS**A. Programmatic Analysis****Existing Law:**

- Establishes the I-Bank in the Business, Transportation and Housing Agency (BTH) to finance public infrastructure and private development projects that promote economic development.
- Requires the I-Bank to report of its activities to the Joint Legislative Budget Committee each year.

This bill would:

- Require the I-Bank to provide technical support to assist small and rural communities obtain financing for local infrastructure projects and compile a list of these activities in the I-Bank's annual report to the Legislature.
- Allow the I-Bank to contract with other state agencies, local or federal authorities to provide the technical support.

Discussion:

While the I-Bank agrees that providing technical support to small, rural communities is necessary to support public infrastructure projects, it is not cost effective for the I-Bank to provide this support when there are already established entities throughout the state that provide this assistance. The major rural assistance providers are:

- Rural Community Assistance Corporation - a nonprofit organization with more than forty field locations that provides technical assistance.
- Self Help Enterprises - a nonprofit entity that provides service to the rural communities in the San Joaquin Valley.
- Fresno State Connect - Rural Development Center (California State University, Fresno) - provides a one-stop center for the rural communities to access technical support related to community and economic development.
- Center for Economic Development (California State University, Chico) - provides products and services that promote community and economic development.

Although about half of I-Banks loans to local governments are utilized by rural communities, many of the communities that would benefit from the technical assistance envisioned by this bill may not have sufficient capacity to repay loans. Therefore technical assistance may not lead to these communities successfully obtaining I-Bank loans.

Related Legislation:

On March 30, 2011, the Assembly Jobs, Economic Development and the Economy (JEDE) Committee held an oversight hearing to examine how infrastructure development impacted local, state and federal economic recovery efforts and California's economic position in the post-recession economy. Based

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on those recommendations from the hearing, JEDE members amended the following bills to include many of its recommendations:

AB 696 (Hueso) would require the I-Bank to create a method to select projects only if they meet land use criteria and can demonstrate quantifiable economic development benefits.

AB 700 (Blumenfield) would establish an independently administered I-Bank.

AB 1094 (John A. Perez) would add one non-voting legislative member appointed by the Assembly Speaker and another one by the Senate Rules Committee to the board of the I-Bank.

B. Fiscal Analysis

The I-Bank estimates costs between \$150 thousand and \$350 thousand for staff needs to provide the technical assistance. The bill does not provide additional funding and diverting staff and funding from existing programs would mean fewer low-interest loans would be available for local infrastructure improvements. The cash in the ISFR program is leveraged with tax-exempt revenue bonds on a 3:1 ratio, so for every dollar diverted from that program there would be \$3 loss of bonds infrastructure financing.

		SO	(Fiscal Impact by Fiscal Year)							
Code/Department		LA	(Dollars in Thousands)							
Agency or Revenue		CO	PROP						Fund	
Type		RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
0520/Secty BT&H		SO	No	C	\$150,000 - 350,000	C	\$150,000 - 350,000	C	\$150,000 - 350,000	0649
<u>Fund Code</u>	<u>Title</u>									
0649	Infrastructure & Economic Devl Bank, Cal									